

Summit Resources Limited

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Summit Resources Limited reported record financial results in 1996. Strong commodity prices combined with Summit's well-planned acquisition, exploration and operations programs provided increased revenues and netbacks for the Company. Summit's fundamental strategy of balancing risk with reward yields positive results for shareholders.

Summit Resources Limited is a public exploration and production company based in Calgary, Alberta and has operated for 24 years in the oil and gas industry.

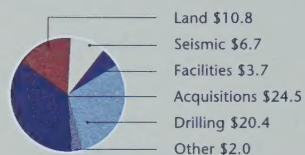
The Company's primary objective is to create long-term shareholder value by exploring for, acquiring and developing high-quality oil and gas assets.

In 1996, Summit's operations strategy resulted in the successful acquisition of properties at competitive prices and the selective drilling of high-quality prospects. This strategy will continue in 1997 as Summit pursues opportunities in the western Canadian Sedimentary Basin, and selected Basins in the United States.

The common shares of Summit Resources Limited are listed for trading on the Toronto Stock Exchange under the symbol SUI. At December 31, 1996, 34.4 million shares were outstanding, representing a market capitalization of approximately \$240 million.

1996 highlights

96 CAPITAL EXPENDITURES \$68.1 MM



DAILY BOE PRODUCTION (BOE/d) ■ oil ■ gas



FINANCIAL	1996	1995	% Change
(\$ thousands except share and per share amounts)			
Petroleum and Natural Gas Revenue	91,140	76,707	19
Cash Flow from Operations	50,006	36,242	38
Per Share	1.46	1.16	26
Net Earnings	7,451	2,745	171
Per Share	0.22	0.09	144
Capital Expenditures (net of dispositions)	68,104	60,230	13
Long-term Debt (net of working capital)	65,893	49,071	34
Shareholders' Equity	190,382	184,536	3
Debt/Equity Ratio	0.35	0.27	30
Common Shares Outstanding (000's)			
At December 31	34,370	34,270	—
Weighted Average	34,244	31,216	10
OPERATING			
Crude Oil and NGLs			
Production - bbls/d	5,707	5,826	(2)
Price - \$/bbl	25.49	20.97	22
Natural Gas			
Production - MMcf/d	60.1	59.2	1
Price - \$/Mcf	1.70	1.44	18

1996 was a record year for Summit. Strengthening commodity prices combined with prudent acquisitions and a successful operations program have produced strong results.

I am very pleased to report that Summit posted record financial results in 1996. These results were achieved not only because of stronger commodity prices but also because of cost efficiencies implemented throughout the Company. As well, Summit's operating results were buoyed by select property acquisitions completed early in the year, prior to the escalation of costs which resulted from strengthened commodity prices and the emergence of royalty trusts.

Although strengthened commodity prices had a significant positive impact on the industry, soft natural gas prices, which prevailed through the first three quarters of the year, resulted in the deferral of several of the Company's natural gas projects. As well, adverse weather and equipment shortages delayed development of a number of Summit's oil properties. Despite these operational delays, significant progress was made in positioning the Company to expand its 1997 program while posting the following accomplishments:

→ revenues increased by 19 per cent to \$91.1 million; cash flow increased by 38 per cent to \$50 million (\$1.46 per share); and net earnings increased by 171 per cent to \$7.5 million (\$0.22 per share)

→ production averaged 11,713 BOE per day with a balanced production base of natural gas, lighter crude oil and natural gas liquids

→ proved plus probable oil and natural gas liquids reserves increased to 17.1 million barrels and extended Summit's oil reserve to production index to 8.2 years

→ proved plus probable natural gas reserves totalled 203 billion cubic feet, giving the Company a reserve to production index of 9.2 years

→ Company land holdings increased to 1,145,000 acres, 75 per cent of which is undeveloped, providing a drilling inventory of over three years

For 1996, the Company's \$68.1 million capital program was allocated 74 per cent to Canadian projects and 26 per cent to U.S. activities. Property acquisitions accounted for 45 per cent of the Canadian budget while 60 per cent of the U.S. capital was spent acquiring prospective land and seismic. Land acquisitions in the U.S. added 214,000 gross acres to Summit's inventory of prospects. The combination of property acquisitions, expanded U.S. land activities and weather and equipment delays resulted in a reduced 1996 drilling program of 36 wells, including 29 participation wells (41 per cent exploratory, 59 per cent development on a net basis) and seven farmout wells.

Summit's low-cost operating structure and quality production base continue to position the Company in the top quartile of industry netbacks. Summit's 35° API average blend of crude oil and liquids production and BOE operating costs of \$4.05 provided 1996 netbacks of \$16.12 per barrel and \$1.13 per thousand cubic feet, for an average netback of \$13.64 per BOE.

A combination of initiatives undertaken during the year to reduce debt carrying charges also positively impacted Summit's financial results. Debt carrying charges were reduced by \$0.53 per BOE to \$0.94 with incremental savings expected to occur in 1997. In addition, Summit's general and administrative expenses of \$0.96 per BOE continue to be well below the average cost for the industry.

1997 Budget Summit's \$50 million capital expenditure program for full-cycle exploration, excluding acquisitions, represents a 20 per cent increase over that for 1996. This capital expenditure program is expected to result in a minimum 60 well program with approximately one half involving the exploration and development of Canadian oil and gas projects. Early results from the Company's winter drilling in British Columbia have been encouraging. A significantly expanded U.S. drilling program will evaluate defined projects in the Williston Basin, Montana and Texas. This activity will be supported by the addition of Summit's U.S. office in Denver which is staffed by experienced professionals who have significant local expertise. Positive results have been achieved from early drilling in Montana as the Company begins its evaluation of light oil prospects.

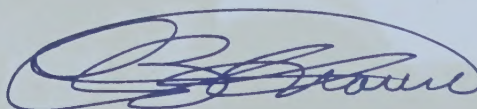
Summit remains in a strong financial position, with a debt to forward cash flow ratio of 1.1 times, well below the Company's guideline limit of 2.0 times forward cashflow. The current debt to forward cash flow ratio enables Summit to aggressively pursue opportunities to expand the Company's production base.

Outlook With 12,700 wells drilled in Canada in 1996 and an expected increase in 1997, equipment and trained personnel will be in great demand. Summit, however, has secured equipment for most of its Canadian projects, although some delays may be experienced. With approximately half of Summit's 1997 drilling program being conducted in the U.S. where rig utilization rates are lower than in Canada, the Company is in a position to move ahead on the majority of its planned operations.

The strong rebound in Canadian natural gas prices in the fourth quarter of 1996 is an indication that natural gas surpluses that have long existed in Canada are now in closer balance with demand. New export pipeline capacity to the U.S. market, expected over the next one to three years, will result from the Northern Border expansion of 700 million cubic feet per day, and the new Alliance Pipeline with a capacity of 1.2 billion cubic feet per day. These developments are expected to reduce the transportation differential that exists between U.S. and Canadian gas prices, increase natural gas netbacks in Canada and positively impact gas producers.

During a period when trained professionals and services are in increased demand, the perseverance and dedication of our staff in positioning the Company to expand its operations is a significant accomplishment. We extend our appreciation to all employees, to our shareholders for their continuing support and to our Board of Directors for their ongoing counsel and advice.

Submitted on behalf of the Board of Directors,



Larry B. Krause
President and Chief Executive Officer

Production remained steady in 1996. Although inclement weather and depressed gas prices reduced the number of wells drilled by the Company, strategic acquisitions enabled Summit to maintain production volumes.



Summit Resources operates in four core areas: northeastern British Columbia, west central Alberta, southern Alberta and northwestern U.S./Saskatchewan. These areas provide geographic balance for the Company's exploration and development programs, as well as providing a balanced mix of light and medium crude oil and liquids, and natural gas.

northeastern British Columbia

	OIL ⁽¹⁾ (bbls/d)		GAS (MMcf/d)	
	1996	1995	1996	1995
Clarke Lake	—	—	11.9	8.0
Wildmint	28	38	3.6	5.3
Gunnell	—	—	1.5	1.1
Other	4	3	0.5	0.2
	32	41	17.5	14.6

west central Alberta

	OIL ⁽¹⁾ (bbls/d)		GAS (MMcf/d)	
	1996	1995	1996	1995
Mirage	857	680	4.5	2.0
Two Creek	93	97	11.4	12.2
Sturgeon Lake	350	61	1.9	1.8
Dunvegan	116	121	3.7	4.1
Kakwa	270	185	0.2	—
Pine Creek	92	—	1.9	—
Sunset	106	—	—	—
Calais	86	117	—	0.1
Other	106	47	0.5	0.7
	2,076	1,308	24.1	20.9

**96 PRODUCTION
OIL**
geographic distribution



southern Alberta

	OIL ⁽¹⁾ (bbls/d)		GAS (MMcf/d)	
	1996	1995	1996	1995
Chain/Craigmyle	112	145	14.1	16.3
Enchant/Hays	960	1,534	0.1	0.2
Provost/Hayter	396	509	0.1	0.1
Queenstown/Jumpbush	379	490	1.9	2.2
Travers/Vulcan	4	12	1.0	3.5
Other	240	214	1.2	1.4
	2,091	2,904	18.4	23.7

**96 PRODUCTION
NATURAL GAS**
geographic distribution



northwestern U.S./Saskatchewan

	OIL ⁽¹⁾ (bbls/d)		GAS (MMcf/d)	
	1996	1995	1996	1995
Lougheed, Sask	328	355	—	—
Montana	284	360	—	—
North Dakota	282	116	—	—
Parkman, Sask	184	299	—	—
Benson, Sask	105	114	—	—
Other	325	329	0.1	—
	1,508	1,573	0.1	—

TOTAL	5,707	5,826	60.1	59.2
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(1) ALL REFERENCES TO OIL THROUGHOUT THIS ANNUAL REPORT INCLUDE BOTH CRUDE OIL AND NATURAL GAS LIQUIDS.

northeastern British Columbia

The northeastern British Columbia properties held by Summit have a history of over 30 years of natural gas production. This core area contributed 29 per cent of Summit's natural gas production in 1996.



Area Overview Summit has significant working interests in five major exploration and development properties in northeastern British Columbia: Clarke Lake, Kotcho, Gunnell, Tooga and Wildmint. Together, these properties yielded 29 per cent of Summit's 1996 natural gas production. The Company is engaged in two major play types in the area, both of which lend themselves to technically advanced exploration methods. In the Slave Point play, 3-D seismic is used to delineate the top of the reservoir, and horizontal drilling is used to maximize production and reserve recoveries from each well. In the Jean Marie play, grids of 2-D seismic are used to define geological trends. Again, reserves are accessed by horizontal drilling.

Since beginning work in northeastern British Columbia, Summit has shot two large 3-D seismic programs and a large 2-D seismic grid and has drilled over 40 wells.

Summit's land acquisition activity in northeastern British Columbia was relatively low in 1996 because of major acquisitions made in 1994 and 1995. This land is now being explored. Early in 1997 the Company acquired a 50 per cent interest in 44,000 acres prospective for Jean Marie gas in the Tooga area. With positive drilling results, the Company will add to this acreage position in 1997.

Production from northeastern British Columbia averaged 17.5 million cubic feet per day in 1996. This area will be a key area of Summit's natural gas exploration focus in 1997. Up to eight horizontal wells, most of which are in winter access areas, are planned in Clarke Lake, Gunnell and Tooga.

Development and exploitation technologies have successfully extended proved reserves at Clarke Lake. This area will be the focus of up to five wells in 1997.

area at a glance

PROJECTS	area interest
Clarke Lake (Slave Point gas)	36%
Gunnell (Jean Marie gas)	85%
Kotcho (Slave Point gas)	76%
Tooga (Jean Marie gas)	50%
Wildmint (Charlie Lake/Halfway gas)	85%
LAND HOLDINGS	
Gross	126,000 acres
Net	79,000 acres
Undeveloped	86,000 acres
PROVED + PROBABLE RESERVES	
Gas	72.5 Bcf
PRODUCTION - 1996	
Gas	17.5 MMcf/d
Oil	32 bbls/d
FACILITIES	
Clarke Lake	60 MMcf/d compressor station and dehydration facilities
Kotcho	dehydration facilities
Wildmint	9 MMcf/d compressor station and dehydration facilities
Gunnell	14 MMcf/d gas processing plant with remote SCADA system, compression and dehydration facilities

area focus:

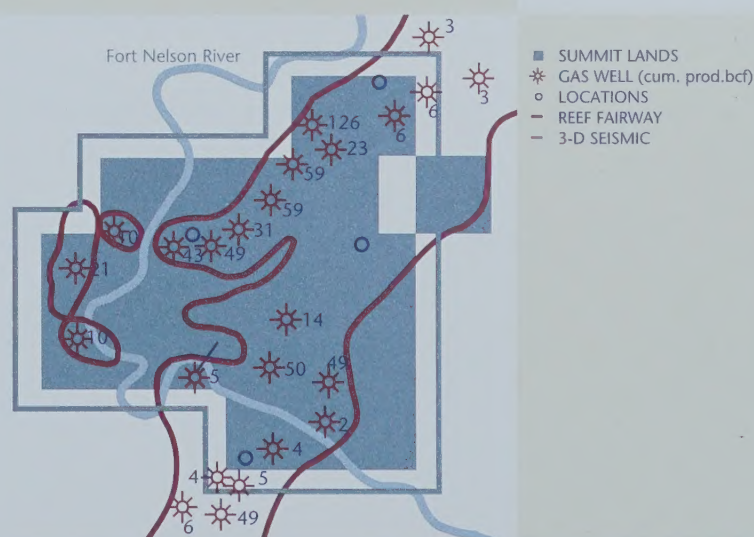
Clarke Lake, B.C.

Summit owns a 36 per cent working interest in most lands contained in Permit 144 which includes part of the prolific Clarke Lake Slave Point gas field. Since the 1960s, this field has produced over 1.5 trillion cubic feet of natural gas, 550 billion cubic feet of which has come from Permit 144. The Slave Point is a barrier reef play controlled by structural relief of the dolomitic reservoir rock. The Slave Point top is easily detected by 3-D seismic, but the reservoir rock cannot be differentiated from non-productive limestone. Producing wells on this permit have average reserves in excess of 35 billion cubic feet per well.

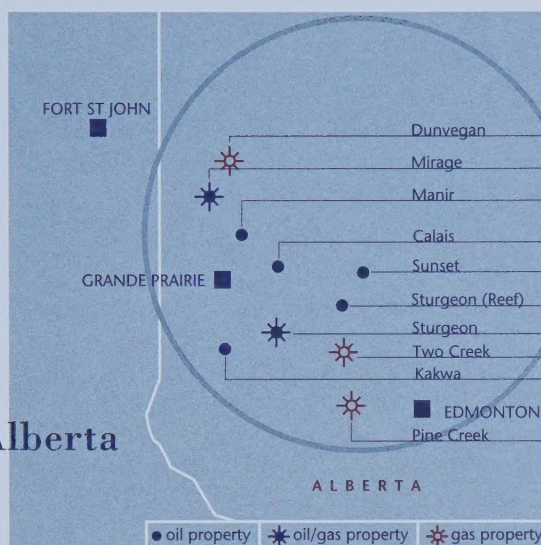
Based on 3-D seismic, the Company drilled six wells in 1996 resulting in a 60 per cent success rate.

Net production to Summit in 1996 totalled 11.9 million cubic feet per day, a 50 per cent increase over the net production of 8.0 million cubic feet per day in 1995. This production goes to Company-owned facilities for dehydration and compression, then to the Fort Nelson plant for treating and processing.

Plans for Clarke Lake in 1997 include the immediate tie-in of two wells, b-48-I/94-J-10 and a-53-J/94-J-10, and drilling three additional locations following the same method of using well control and 3-D seismic to drill horizontally into the top of the Slave Point.



west central Alberta



The Company's west central Alberta project area has the potential for incremental reserves and increased production through the use of exploitation technologies developed in recent years.

Area Overview Summit is active in several areas of west central Alberta, including Calais, Dunvegan, Kakwa, Manir, Mirage, Pine Creek, Sturgeon Lake, Sunset and Two Creek. The area provides a mix of oil and gas production from a number of play types and zones, including the Leduc, Montney, Halfway, Charlie Lake, Debolt, Gething, Notikewan and Bluesky formations. In terms of total production, west central Alberta accounts for 36 per cent of Summit's oil production and 40 per cent of the Company's gas production.

Summit's historical presence in this very competitive area has given it a solid land position, an extensive seismic data base and control over infrastructure. West central Alberta is a core focus area and Summit is continually adding to and evaluating its acreage with a multi-phase approach to acquisition, exploration, development and exploitation. The Company has extensive facilities in the area, including processing plants, gathering systems, waterflood infrastructure, and dehydration, separation, compression and storage facilities.

Summit's land activity in west central Alberta in 1996 centred on the Sturgeon Lake and Two Creek areas through farmins, swaps and acquisitions, including the purchase of three oil properties at Sturgeon Lake (D3), Sunset and Manir, and one gas property at Pine Creek.

The Sturgeon Lake project area has grown in value from early exploration efforts in natural gas to a mix of exploration and exploitation for light oil and natural gas in 1997.

area at a glance

PROJECTS	area interest
Calais (D3 oil)	65%
Dunvegan (Debolt gas)	6%
Kakwa (Cardium oil)	14%
Manir (Charlie Lake oil)	9%
Mirage (Halfway oil and gas)	95%
Pine Creek (Bluesky/Gething gas)	36%
Sturgeon Lake (D3 oil, Montney gas)	95%
Sunset (Montney oil)	37%
Two Creek (Notikewan gas)	66%
LAND HOLDINGS	
Gross	200,000 acres
Net	142,000 acres
Undeveloped	132,000 acres
PROVED + PROBABLE RESERVES	
Oil & NGLs	9,941 Mbbbls
Gas	94.4 Bcf
PRODUCTION - 1996	
Oil	2,076 bbls/d
Gas	24.1 MMcf/d
FACILITIES	
Dunvegan	150 MMcf/d gas processing plant, extensive gathering system, compression, separation and storage facilities
Mirage	5 MMcf/d sour gas plant with acid gas injection facilities
Sturgeon Lake	15 MMcf/d gas processing plant
Two Creek	19 MMcf/d gas processing plant
Pine Creek	16 MMcf/d gas processing plant

area focus:

Sturgeon Lake D3, Alberta

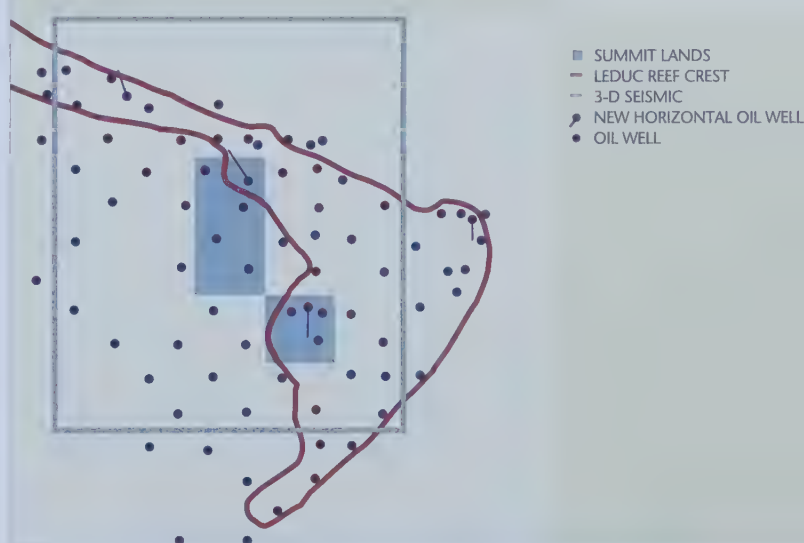
In 1994, when the Company first began work in the Sturgeon Lake area, the primary target was the Montney gas play consisting of complex stratigraphic traps which are subtle but definable using 2-D seismic. Summit became involved in the Leduc D3 oil play in 1996 when it acquired a 100 per cent interest in the Sturgeon Lake D3 oil property.

The Sturgeon Lake D3 is a light oil play comprising a seismically definable carbonate reservoir which is suitable for production by horizontal wells because vertical wells, at this stage in the reservoir life, drain relatively small portions of the reservoir due to water coning. Horizontal wells provide higher recovery factors and greater productivity because they drain a more laterally extensive area.

During 1996, Summit conducted a 3-D seismic program over working interest lands and drilled three horizontal wells. These underbalanced wells were drilled with horizontal sections over 650 feet long.

Although capable of producing at high rates, production from the wells is being controlled to maximize the recovery factor and control water encroachment.

Based on the performance of the first three wells, additional drilling will be considered in 1997.



southern Alberta



Summit's investment in the well-established southern Alberta core area has resulted in extensive drilling activity since the 1980's combined with the development of facilities to process the oil and natural gas recovered.

Area Overview Summit's properties in southern Alberta include Alderson, Bashaw, Chain/Craigmyle, Enchant, Hays, Hayter, Jumpbush, Provost, and Queenstown. Typical plays at these properties include gas-prone channel plays and less commonly, oil-prone stratigraphic plays. Summit obtains 30 per cent of its natural gas and 37 per cent of its oil from its southern Alberta properties.

The Company first entered the area in the early 1980's and has been active in both exploration and development projects since. Although these are mature fields, over the past years several new pools have been discovered in the Enchant area, which alone accounted for 16 per cent of the Company's oil production in 1996.

Summit operates natural gas processing plants and natural gas compression facilities in the Chain/Craigmyle area and holds interests in 14 oil wells (7.3 net) and 62 gas wells (49.1 net).

In general, land acquisition activity is low as the area is mature and large land blocks are rarely available. With its large land base, Summit is competitive with other industry players and adds to its inventory when prospective land becomes available.

Based on additional geological initiatives undertaken in 1996, Summit plans to move forward in 1997 with an extensive exploitation program in the well-established Chain/Craigmyle area.

area at a glance

PROJECTS	area interest
Alderson (Mannville oil)	100%
Bashaw (Belly River gas)	33%
Chain/Craigmyle (Belly River/Ostracod oil, gas)	48%
Enchant (Sawtooth oil, gas)	100%
Hayter (Dina oil)	26%
Jumpbush (Mannville oil)	96%
Provost (Lloydminster oil)	100%
Queenstown (Mannville oil, gas)	100%
LAND HOLDINGS	
Gross	182,000 acres
Net	87,000 acres
Undeveloped	57,000 acres
PROVED + PROBABLE RESERVES	
Oil & NGLs	2,873 Mbbls
Gas	35.6 Bcf
PRODUCTION - 1996	
Oil	2,091 bbls/d
Gas	18.4 MMcf/d
FACILITIES	
Chain/Craigmyle	27 MMcf/d gas processing plant and compressor station
Queenstown	30 MMcf/d gas processing plant with fractionation

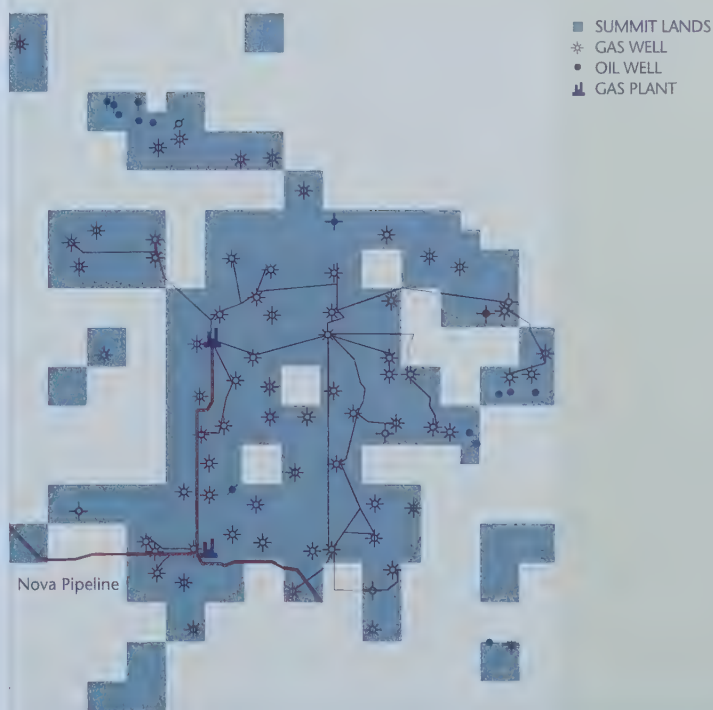
area focus:

Chain/Craigmyle, Alberta

Chain/Craigmyle has been one of Summit's core areas since the early 1980's and was one of the Company's first key plays. The Company has a substantial land position and significant infrastructure in this area. Both gas and oil are produced at Chain/Craigmyle. The gas play comprises shallow, multi-zone stratigraphic channel plays in the Belly River, Ostracod and Glauconite zones. Oil is found in fractured reservoirs in the Banff formation.

Despite the maturity of the area, Summit has significant plans for the Chain/Craigmyle area in 1997. A remapping of the area indicates a number of bypassed locations and several new trends for infill and exploitation drilling in Cretaceous and Mississippian reservoirs. The Company plans to drill five to ten wells and recomplete a similar number in 1997.

Production at Chain/Craigmyle in 1996 averaged 14.1 million cubic feet of natural gas per day, 23 per cent of the Company's total natural gas output. Chain/Craigmyle also produced an average of 112 barrels per day of light oil and natural gas liquids.



northwestern U.S./Saskatchewan



Summit has recorded good success in this oil-prone area for many years. Plans in 1997 include the exploration of land acquired in 1996 as well as the development of existing producing properties.

Area Overview Summit's involvement in this area began early in the Company's development, with projects at Parkman, Viewfield and Benson in southeastern Saskatchewan. Further acquisitions in the area included Cantal and Lougheed. In 1993, Summit expanded its operations into the United States when it acquired a 100 per cent working interest in the Red Creek Unit in Montana, a property on-trend with other Summit properties in southern Alberta. In 1994, the Company acquired 170,000 acres of land and shot over 250 square miles of 3-D seismic through its involvement in the Lodgepole play in North Dakota. The move to the U.S. was precipitated by the lower level of competition, and less costly land, drilling and services.

Plays in the area tend to be complex stratigraphic plays with a sizable structural component. Horizontal drilling and 3-D seismic are important development tools, especially in the U.S. where, because of limited application, their use affords a greater competitive edge.

During 1996 the Company acquired 25,000 acres in central Montana, 5,000 acres in eastern Montana and 82,000 acres in South Dakota.

In 1996, Summit participated in drilling five wells at Viewfield and one at Ingoldsby, Saskatchewan. All but one well were completed as oil wells.

In the United States, the Company has a 40 per cent interest in the Heidt new pool discovery well drilled near Dickinson, North Dakota.

The Hilene Lodgepole discovery was unitized late in 1996 with the Company holding a 28 per cent working interest. Gross production is expected to increase from 350 barrels per day to 1,200 barrels per day in early 1997 as a result of the waterflood implemented in the fourth quarter of 1996.

Plans for the Crooked Creek prospect in South Dakota include applying state-of-the-art horizontal drilling technologies to evaluate this prospect.

area at a glance

PROJECTS	area interest
Benson, Saskatchewan (Midale oil)	64%
Cantal, Saskatchewan (Frobisher/Alida oil)	43%
Crooked Creek, South Dakota (Red River oil)	50%
Lougheed, Saskatchewan (Midale oil)	100%
Parkman, Saskatchewan (Tilston oil)	81%
Viewfield, Saskatchewan (Frobisher oil)	71%
Red Creek, Montana (Madison/Cutbank oil)	100%
Hay Creek, Montana (Red River oil)	60%
Lodgepole, North Dakota (Lodgepole oil)	54%
LAND HOLDINGS	
Gross	417,000 acres
Net	224,000 acres
Undeveloped	400,000 acres
PROVED + PROBABLE RESERVES	
Oil	4,170 Mbbls
PRODUCTION - 1996	
Oil	1,508 bbls/d

area focus:

Crooked Creek, South Dakota

Summit has a 50 per cent interest in the Crooked Creek oil play in South Dakota. The target zone is the Red River 'B' dolomite which is characterized by generally high porosity but variable permeability. The permeability trends are related to deep-seated structures which also control oil migration and trapping.

As an exploration play, Crooked Creek is still in an early stage. Over the past two years over 120 successful horizontal wells have been drilled on this play, primarily in North Dakota. Activity has recently expanded into Montana and South Dakota. No horizontal wells have been drilled on Company lands, but the Company has shot a 3-D seismic survey over a portion of its lands and has planned a three-well horizontal pilot program for 1997 involving drilling, logging and casing the vertical section of each well before building the horizontal section. By following this plan, Summit will obtain critical information with regard to permeability and water saturations which will facilitate the next drilling phase. If warranted, further development drilling and seismic evaluation could continue on Summit's 82,000 gross acres for another two years.



high impact area: east Texas

East Texas is a new area for Summit that meets the Company's criteria for balancing risk with the rewards of high potential plays.



Area Overview Summit began operations in east Texas in April 1996 to take advantage of access to high U.S. natural gas prices and the very large potential returns of available plays.

In 1996, Summit purchased several hundred miles of 2-D seismic data. This data was used to define the potential pinnacle reef fairway and ultimately identify prospective lands. Summit coordinated and assisted in an intensive effort to lease contiguous land blocks on the reef fairway. As a result of these efforts, Summit has assembled 95,000 acres of land on trend for Cotton Valley pinnacle reefs at an average working interest of 24 per cent.

Summit's acreage is divided into three separate blocks. Within each block, the Company has aligned itself with strategic U.S. partners and has entered into two separate joint venture agreements with

major U.S. companies to reduce capital exposure to the play and to take advantage of local expertise and operational efficiencies.

Development of Cotton Valley pinnacle reefs on trend with the Company's acreage in Leon, Freestone and Robertson Counties has resulted in significant reserves and the construction of natural gas processing facilities to accommodate production operations.

The area is strategically located near existing natural gas pipeline infrastructures which can transport gas to a variety of attractive markets.

In addition to the Cotton Valley, numerous other zones produce significant hydrocarbons which will also be evaluated through the exploration process.

Summit's involvement in this area is an opportunity to participate in a high-impact exploration play with the scope to have a significant impact on our reserve and production base. Although this play has a high risk component at this stage, Summit has effectively reduced its financial commitment through joint venture agreements with reputable U.S. industry partners.

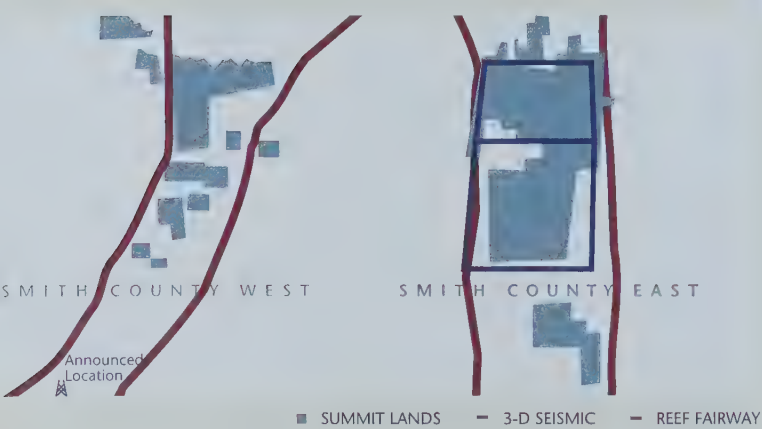
area focus:

Cotton Valley Reef, East Texas

Three prospective areas in east Texas provide the opportunity for Summit to participate in new ventures, while joint venture partnerships reduce the risk to the Company.

Smith County East

Summit owns a 24 per cent interest in 44,000 acres in this land block. Summit is currently operating the shooting of a 40 square mile 3-D seismic program which will be completed by the second quarter. The Company has entered into a joint venture with a large U.S. independent oil company which will result in a further 60 square mile 3-D seismic program to be shot in the third quarter of 1997. Pending results of the first seismic survey a test well is contemplated in the third quarter.



Smith County West

Summit owns 11,000 acres with a 51 per cent working interest on a block of land that is approximately 20 miles from an announced competitor's test well, expected to be drilled in the second quarter to evaluate the Cotton Valley. It is expected that 3-D seismic acquisition will commence on this property late in 1997.

Success on this project will provide the Company access to higher priced natural gas markets and lower transportation costs.

PROJECTS	area interest
East Texas (Cotton Valley gas)	24%
LAND HOLDINGS	
Gross	95,000 acres
Net	23,000 acres
Undeveloped	95,000 acres
PROVED + PROBABLE RESERVES	
Gas	undrilled
PRODUCTION - 1996	
Gas	undrilled

Rusk County

Summit holds a 20 per cent interest in 40,000 acres in Rusk County. Plans in 1997 include shooting a 50 square mile 3-D seismic survey over the western portion of the acreage which is expected to be completed in the third quarter. Pending results of the seismic evaluation, drilling activities are expected to commence in the fourth quarter. Summit holds its interests in this area in partnership with a U.S. multi-national company.

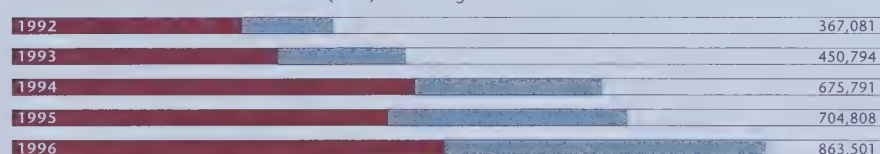


Land The recovery of commodity prices during 1996 resulted not only in increased land sale activity but also increased competition for land and, consequently, higher land prices. Because a significant amount of industry activity is focused on areas in which Summit has core properties, competition and prices were especially high. The Company therefore decided to focus the majority of its acquisitions in new areas and restrict its core area acquisitions to those that were immediately strategic.

Summit acquired 229,000 gross acres (113,000 net) in 1996, primarily in four different focus areas. The Company's average working interest in new lands acquired was 49 per cent in 1996, compared to 44 per cent in 1995. In west central Alberta, Summit acquired 11,000 acres in its Sturgeon and Two Creek core areas. In central Montana, 25,000 acres were added to its inventory on the Tyler sand oil trend. Summit also became involved in two new areas. In South Dakota, the Company acquired 82,000 acres on the Red River trend and in east Texas, 95,000 acres were leased on the Cotton Valley pinnacle reef trend.

Summit spent approximately \$11 million on land in 1996. A similar amount is targeted for 1997, the majority of which will be directed toward new project areas in Alberta and British Columbia.

UNDEVELOPED LAND INVENTORY (acres) ■ net ■ gross



The Company's undeveloped land position at December 31, 1996 totalled 864,000 gross acres (496,000 net) compared to 705,000 gross acres (431,000 net) in 1995.

LAND SUMMARY - UNDEVELOPED (acres)

	1996			1995		
	Gross	Net	Average Interest	Gross	Net	Average Interest
Alberta	282,514	196,429	70%	328,483	236,476	72%
British Columbia	85,977	59,224	69%	89,775	60,287	67%
Saskatchewan	3,249	1,708	53%	3,237	1,787	55%
Total Canada	371,740	257,361	69%	421,495	298,550	71%
Montana	138,084	108,352	78%	109,323	88,548	81%
North Dakota	176,597	65,897	37%	173,990	43,753	25%
South Dakota	81,973	40,987	50%	—	—	—
Texas	95,107	23,124	24%	—	—	—
Total U.S.	491,761	238,360	48%	283,313	132,301	47%
Total	863,501	495,721	57%	704,808	430,851	61%

FIVE YEAR DRILLING SUMMARY

	1996	1995	1994	1993	1992
Oil	9	14	25	46	29
Gas	9	15	34	21	4
Farmout	7	25	7	16	5
Dry and Abandoned	11	14	23	12	12
Total	36	68	89	95	50

Drilling During 1996, Summit participated in the drilling of a total of 29 wells and retained an average working interest of 58 per cent. Of these wells, 10 were exploratory and 19 were development. Drilling activity resulted in nine oil wells (5.3 net), nine gas wells (5.5 net) and 11 dry holes (6.0 net). The Company's overall success rate for 1996 net wells was 64 per cent, with a 35 per cent success rate in exploration drilling and an 85 per cent success rate for development drilling.

DRILLING ACTIVITY	EXPLORATORY		DEVELOPMENT		TOTAL	
	Gross	Net	Gross	Net	Gross	Net
1996						
Oil	1.0	0.4	8.0	4.9	9.0	5.3
Gas	2.0	2.0	7.0	3.5	9.0	5.5
Abandoned	7.0	4.5	4.0	1.5	11.0	6.0
Total	10.0	6.9	19.0	9.9	29.0	16.8
Success Rate	30%	35%	79%	85%	62%	64%
Average Working Interest		69%		52%		58%

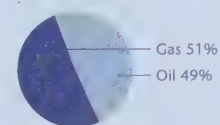
Seismic Summit's 1996 capital expenditures for seismic were lower than in previous years; however, both 2-D and 3-D programs were undertaken. The Company acquired a total of 71 kilometres of 2-D seismic and 333 square kilometres of 3-D seismic in 1996.

Production On a BOE basis, Summit's daily production totalled 11,713 barrels of oil equivalent, comprising 5,707 barrels of oil and natural gas liquids per day and 60.1 million cubic feet of gas per day. This represents a decrease of 37 barrels of oil equivalent per day from 1995. Natural gas production increased one per cent from 59.2 million cubic feet per day. Oil production decreased two per cent from 5,826 barrels per day.

For 1997, the Company is budgeting a nine per cent increase in production volumes to 12,800 BOE per day. This represents a three per cent increase in gas production to 62 million cubic feet per day and a 16 per cent increase in oil production to 6,600 barrels per day.

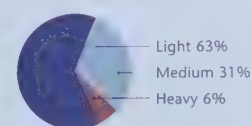
Reserves During 1996, Summit's drilling and acquisitions program added crude oil reserves of 4.4 million barrels on a proved plus probable basis and 3.6 million barrels on a proved basis. Similarly, natural gas reserves added 28 billion cubic feet on a proved plus probable basis and 24.1 billion cubic feet on a proved basis. This equates to 7.2 million BOE of reserves on a proved plus probable basis and 6.0 million BOE on a proved basis.

96 BOE PRODUCTION



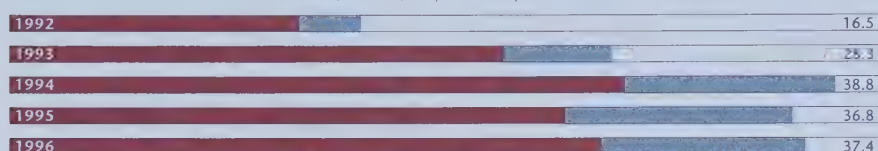
CRUDE OIL QUALITY

light - 30° API and over
medium - 25° to 30° API
heavy - less than 25° API

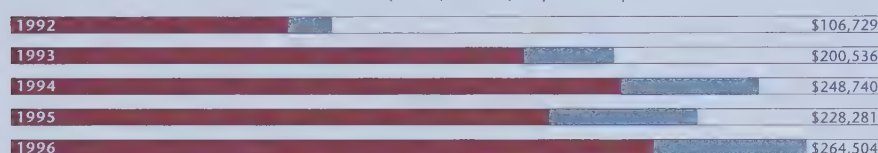


Revisions to prior reserve estimates resulted in an increase of 0.4 million barrels of proved liquids reserves and a decrease of 0.5 million barrels of probable liquids reserves for a net decrease of 0.1 million barrels. Proved natural gas reserves were revised downwards by 4 billion cubic feet, and probable natural gas reserves by 18.3 billion cubic feet, for a total of 22.3 billion cubic feet. Total revisions reflect no change in proved reserves and a decrease of 2.3 million BOE in probable reserves.

PROVED AND PROBABLE RESERVES (MMBOE) ■ proved ■ probable



PROVED AND PROBABLE RESERVE VALUE (\$000's; PV 15%) ■ proved ■ probable



At December 31, 1996, Summit's reserves totalled 17.1 million barrels of oil and 203 billion cubic feet of gas on a proved plus probable basis. Based on 1996 production rates for oil and gas, the proved plus probable reserve life index for oil is 8.2 years and 9.2 years for natural gas.

Summit's finding and on-stream costs for its Canadian operations totalled \$8.62 per BOE on a proved basis in 1996. Finding costs were impacted by significant land acquisition costs and seismic expenditures in the U.S. resulting in finding and on-stream costs of \$11.03 on a consolidated basis. The Company's five year average finding and on-stream costs amount to \$7.89 per BOE. Summit's 1997 drilling program, which will more than double the 1996 well total, is expected to positively impact the Company's finding and on-stream costs.

RECONCILIATION OF CHANGES IN RESERVES

	OIL AND NGLS (Mbbls)			GAS (Bcf)		
	Proved	Probable	Total	Proved	Probable	Total
Balance, December 31, 1995	10,225	4,656	14,881	158.6	60.7	219.3
Acquisitions	1,870	374	2,244	8.7	1.2	9.9
Additions	1,717	470	2,187	15.4	2.7	18.1
Revisions	402	(491)	(89)	(4.0)	(18.3)	(22.3)
Production	(2,089)	—	(2,089)	(22.0)	—	(22.0)
Balance, December 31, 1996	12,125	5,009	17,134	156.7	46.3	203.0

RESERVE LIFE INDICES

Oil and NGLs	8.2 years	(based on 1996 production of 5,707 bbls/d)
Gas	9.2 years	(based on 1996 production of 60.1 MMcf/d)
BOE	8.7 years	(based on 1996 production of 11,713 BOE/d)

Marketing

1996 Highlights The past year was characterized by volatility and record breaking prices for petroleum products in both Canada and the U.S.

NYMEX natural gas prices hit an all-time high when the December 1996 futures contract averaged U.S. \$3.61 per Mcf for its last three settlement days. With a combination of cold weather, high storage depletion, and production decline rates, western Canada also experienced increased gas prices for the year. AECO 'C' prices averaged Cdn. \$1.46 per Mcf, a 22 per cent increase over 1995.

Low U.S. refinery inventory levels and strong world demand for refined products led to the highest NYMEX crude oil prices since the Gulf War. WTI averaged U.S. \$22.00 per barrel for 1996, a 20 per cent increase over the comparative 1995 price of U.S. \$18.40 per barrel.

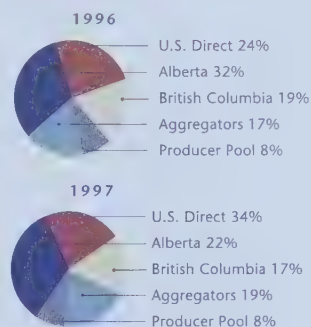
Summit's average natural gas price, including gains realized on financial transactions, rose 18 per cent to \$1.70 per thousand cubic feet. For crude oil and natural gas liquids, Summit's blend of primarily light sweet oil from Alberta, Saskatchewan, North Dakota and Montana averaged a realized price of \$25.49 per barrel, one of the highest in the Canadian oil and gas industry.

Summit continues to market its production to a diversified group of purchasers based on duration, load factor and geographic price exposure. For natural gas, one of the Company's primary objectives in 1996 was to increase its exposure to long-term U.S.-priced contracts. In this regard, Summit was successful in finalizing negotiations with a Canadian aggregator for 10 million cubic feet per day and with another third party to move five million cubic feet per day of Alberta production to Ventura, Iowa on the Northern Border Pipeline Company system. Deliveries to these contracts began in the latter half of 1996, positively impacting the Company's overall netback price.

The majority of the Company's crude oil and NGLs are sold under 30 day to one year contracts. Having production in western Canada and the Rocky Mountain States has allowed for price diversity along with access to major crude oil hubs.

Summit strives to minimize operational curtailments in moving its commodities to market. For 1996, transportation utilization on B.C.'s Westcoast Energy Inc. system and Alberta's NOVA system was maintained. For crude oil, the Company has proactively managed its storage tank farms at major properties and this, combined with selling the bulk of its production directly at the lease, mitigated any apportionment obstacles on major crude pipelines.

NATURAL GAS MARKETING geographic distribution



Risk Management With continued volatility of natural gas and crude oil prices, Summit maintains a proactive risk management strategy. For natural gas, the Company has locked in a plantgate price of \$1.84 per thousand cubic feet for approximately 22 per cent of its 1997 budgeted production. NYMEX futures prices for crude oil remain relatively backwardated into the latter part of 1997 and therefore provide the Company with considerable upside from current spot levels. The Company has not hedged any of its 1997 crude oil production through financial transactions.

Outlook Gas deliverability in the western Canadian Sedimentary Basin has significantly exceeded export pipeline capacity for the last two years. With industry decline rates averaging 15 to 20 per cent for newly produced wells, Summit believes that the supply-demand balance for Canadian production is now more in line for producers to realize full-cycle exploration and production costs. Coupled with the Northern Border Pipeline Company expansion in 1998 and the Alliance Pipeline expansion proposal in 1999, the Company remains optimistic for Canadian gas producers.

Summit's short-term outlook for crude oil is for WTI prices to remain relatively stable for the first quarter of 1997, and then possibly decline to the U.S. \$20.00 per barrel range for the spring months. The combination of an expected two to three per cent increase in world demand, along with tighter refinery inventory levels in the U.S., is expected to result in WTI crude oil prices averaging U.S. \$21.00 to U.S. \$23.00 in the calendar year 1997.

TERM OF GAS CONTRACTS
(1997)



management's discussion and analysis

of financial condition and results of operations

The following discussion of financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and Notes thereto. It offers Management's analysis of Summit's historical financial and operating results, and provides estimates of Summit's future financial and operating performance based on information currently available. Actual results may vary from estimates and the variations may be significant.

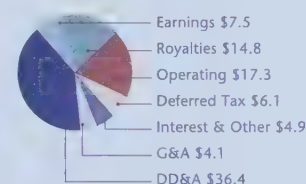
Summary of 1996 Financial Results During 1996, Summit achieved record oil and gas sales and cash flow, as well as strong growth in net earnings and per share values for both earnings and cash flow. Strong commodity prices and reduced operating costs in 1996 produced the highest netbacks in the Company's history. The strength of Summit's financial position at the end of the year will enable the Company to actively pursue its exploration and development plans for 1997 and will provide the flexibility required to take advantage of new opportunities that may arise during the coming year.

FINANCIAL SUMMARY

(\$000's except where noted)

	1996	1995	1994	1993	1992
Oil & Gas Sales	91,140	76,707	81,558	52,289	28,873
Cash Flow from Operations	50,006	36,242	44,565	29,044	13,755
Cash Flow per Share	\$1.46	\$1.16	\$1.59	\$1.18	\$0.64
Net Earnings	7,451	2,745	10,807	7,960	4,209
Net Earnings per Share	\$0.22	\$0.09	\$0.39	\$0.32	\$0.20
Capital Expenditures (net)	68,104	60,230	100,442	78,809	21,640
Long-term Debt					
(net of working capital)	65,893	49,071	90,320	35,662	28,497
Shareholders' Equity	190,382	184,536	115,314	103,242	51,772
Return on Shareholders' Equity (%)	4.0	1.9	10.5	11.6	8.8
Net Asset Value	300,000	261,070	230,082	212,247	106,895
Net Asset Value per Share	\$8.73	\$7.62	\$8.13	\$7.58	\$4.98
Total Capitalization	332,004	331,566	349,058	283,304	130,513
Common Share Trading Activity					
(MM shares traded)	19.9	25.3	7.1	14.4	4.4
Value of Common Shares Traded					
(\$MM)	122.9	319.5	64.0	122.5	13.1

96 OIL & GAS SALES
\$91.1MM



Oil and Gas Sales Revenue from oil and natural gas increased by 19 per cent from \$76.7 million in 1995 to \$91.1 million for 1996. The strength of crude oil prices throughout 1996 effected a 20 per cent increase in WTI crude oil prices to U.S. \$22.00 (1995 - U.S. \$18.40). The quality of Summit's blend of crude oil has continued to improve, with the majority of new oil production being light, sweet crude which attracts a premium price. Summit's realized oil and natural gas liquids price increased 22 per cent from \$20.97 in 1995 to \$25.49 in 1996.

The incremental oil revenue from increased pricing was offset by a two per cent decline in daily oil production. Summit's 1996 oil production of 5,707 barrels per day compares to 1995 oil production of 5,826 barrels per day. Oil production in the fourth quarter of 1996 increased by 10 per cent to 5,630 barrels per day from 5,133 barrels per day in the fourth quarter of 1995. Adverse weather conditions in the Company's northern operating regions throughout the first half of 1996 delayed drilling on a number of oil development projects, specifically Calais and the Sturgeon Lake D3 Reef play in northern Alberta. In addition, increased production expected from the Company's Mirage waterflood project was delayed due to voidage replacement.

Natural gas prices increased dramatically in the fourth quarter of 1996 with Summit's average price for 1996 increasing 18 per cent to \$1.70 per thousand cubic feet, compared to 1995 average gas prices of \$1.44 per thousand cubic feet. Included in the 1996 gas price is approximately \$0.12 per thousand cubic feet representing settlement proceeds on the retirement of a long term natural gas contract in the fourth quarter.

Throughout the first three quarters of 1996, soft gas prices caused Summit to delay a number of its natural gas projects. Natural gas development plans at Clarke Lake in northeastern B.C. also experienced delays, resulting in fewer wells being drilled. Natural gas production in 1996 increased slightly to 60.1 million cubic feet per day from 59.2 million cubic feet per day in 1995. This, combined with the increase in natural gas prices, resulted in a 20 per cent increase in natural gas sales to \$37.3 million from \$31.2 million in 1995. Fourth quarter 1996 gas production increased six per cent over the comparable 1995 period to 59.6 million cubic feet per day.

COMMODITY SALES (\$000's) ■ oil sales ■ gas sales

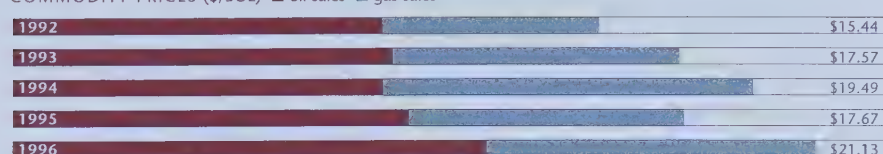
1992		28,873
1993		52,289
1994		81,558
1995		76,707
1996		91,140

OIL AND GAS SALES

(\$000's except where noted)

	1996	1995	1994	1993	1992
Oil and Gas Sales					
Oil Sales	53,794	45,494	41,068	29,601	18,224
Gas Sales	37,346	31,213	40,490	22,688	10,649
Total	91,140	76,707	81,558	52,289	28,873
Oil/Gas Ratio (%)	59 / 41	59 / 41	50 / 50	57 / 43	63 / 37
Production					
Oil - bbls/d	5,707	5,826	5,960	4,619	2,706
Gas - MMcf/d	60.1	59.2	53.6	34.1	23.5
Total - BOE/d	11,713	11,750	11,319	8,025	5,052
Prices					
Oil - \$/bbl	25.49	20.97	18.40	17.07	18.07
Gas - \$/Mcf	1.70	1.44	2.07	1.82	1.24
Total - \$/BOE	21.13	17.67	19.49	17.57	15.44

COMMODITY PRICES (\$/BOE) ■ oil sales ■ gas sales



Royalties (net of ARTC) Royalties have remained relatively constant as a percentage of sales. Although Summit's mix of production has not changed significantly, oil royalties, because they are calculated on a sliding scale relative to pricing, have increased commensurate with rising oil prices. In addition, royalty incentive periods have expired on a number of Summit's newer oil exploration areas in Canada and the United States. The decrease in natural gas royalties is largely due to favourable adjustments relating to previous years' estimates of Alberta gas Crown royalties and favourable gas cost allowance adjustments for 1995. Summit's royalty rate benefited from its corporate natural gas price for 1996 exceeding the Alberta Reference Price which is the benchmark for calculating Alberta gas Crown royalties.

ROYALTY SUMMARY

(\$000's except where noted)	1996	1995	1994	1993	1992
Royalties					
Oil	10,587	7,550	6,432	3,842	2,288
Gas	4,170	4,989	7,214	4,066	1,567
Total	14,757	12,539	13,646	7,908	3,855
Unit Costs					
Oil - \$/bbl	5.08	3.55	2.95	2.28	2.30
Gas - \$/Mcf	0.19	0.23	0.37	0.32	0.18
Total - \$/BOE	3.44	2.92	3.30	2.70	2.08
Percentage of Sales					
Oil (%)	19.7	16.6	15.7	13.0	12.6
Gas (%)	11.2	16.0	17.8	17.9	14.7
Total (%)	16.2	16.3	16.7	15.1	13.4

Operating Expenses On a BOE basis, operating expenses decreased from \$4.14 per BOE in 1995 to \$4.05 per BOE in 1996. Natural gas operating expenses decreased by seven per cent during 1996 from \$0.41 per thousand cubic feet to \$0.38 per thousand cubic feet. Summit is realizing reduced operating costs as a result of the investment made in 1995 in Company-owned and operated natural gas facilities. Increased production through these facilities has provided more complete coverage of fixed costs, and operational efficiencies have increased throughout the year as the start-up phases on newly constructed facilities have ended.

OPERATING EXPENSE SUMMARY

(\$000's except where noted)	1996	1995	1994	1993	1992
Operating Expenses					
Oil	8,970	8,907	8,040	6,125	3,951
Gas	8,374	8,855	7,786	4,096	2,321
Total	17,344	17,762	15,826	10,221	6,272
Unit Expenses					
Oil - \$/bbl	4.29	4.19	3.70	3.63	3.99
Gas - \$/Mcf	0.38	0.41	0.40	0.33	0.27
Total - \$/BOE	4.05	4.14	3.83	3.49	3.39

Operating expenses for oil increased by two per cent from \$4.19 per barrel in 1995 to \$4.29 per barrel in 1996. Declining production at some of Summit's major oil facilities has contributed to this increase, as have increased water handling requirements, particularly in Saskatchewan. In addition, trucking expenses, due to a lack of pipeline infrastructure at some of Summit's newer oil facilities, have resulted in increased operating costs.

NETBACK SUMMARY

	1996	1995	1994	1993	1992
Oil - \$/bbl					
Revenue	25.49	20.97	18.40	17.07	18.07
Royalties	(5.08)	(3.55)	(2.95)	(2.28)	(2.30)
Operating Expenses	(4.29)	(4.19)	(3.70)	(3.63)	(3.99)
	16.12	13.23	11.75	11.16	11.78
Gas - \$/Mcf					
Revenue	1.70	1.44	2.07	1.82	1.24
Royalties	(0.19)	(0.23)	(0.37)	(0.32)	(0.18)
Operating Expenses	(0.38)	(0.41)	(0.40)	(0.33)	(0.27)
	1.13	0.80	1.30	1.17	0.79
Total Netback - \$/BOE	13.64	10.61	12.36	11.38	9.96

The combined contribution of each of the primary product components has resulted in the highest BOE netbacks in the Company's history. We anticipate that BOE operating expenses will continue their downward trend in 1997, and with percentage royalty rates remaining constant, Summit's operations will continue to provide a good return through a wide range of product pricing.

BOE NETBACKS ■ royalties ■ operating ■ netback



General and Administrative Expenses Administrative expenses increased in 1996 compared to 1995 as a result of higher industry-wide salary levels due to increased demand for talented professionals. In addition, over 36 per cent of Summit's 1996 capital program was dedicated to property acquisitions which do not attract capital overhead recoveries as do exploration and development activities. These factors caused an increase in administrative expenses, both on a gross and per unit basis. With only minor adjustments in staff levels projected in 1997, we expect only modest increases in gross administrative expenses. Because the majority of Summit's 1997 capital program will attract overhead recoveries, the Company anticipates a decrease in net G & A expenses in 1997.

GENERAL & ADMINISTRATIVE SUMMARY

(\$000's except where noted)	1996	1995	1994	1993	1992
G & A Expenses - Gross	7,222	6,327	5,792	5,078	4,899
Overhead Recoveries	(3,113)	(3,108)	(3,420)	(2,587)	(2,712)
G & A Expenses - Net	4,109	3,219	2,372	2,491	2,187
Net G & A Expenses - \$/BOE	0.96	0.75	0.57	0.85	1.18

Interest Expense In April 1996, Summit placed U.S. \$30 million of Senior Notes with private institutions at a fixed rate of 6.78 per cent, maturing in 2006. The Company subsequently entered into two financial transactions which converted the fixed U.S. interest rate into a floating Canadian rate and fixed the repayment of the principal amount of the Senior Notes at their carrying value in Canadian dollars. These transactions, combined with lower interest rates throughout 1996, resulted in a lower effective interest rate and lower interest costs for Summit in 1996. Summit has arranged its financing to provide for exceptional coverage of its debt servicing charges. We expect, based on anticipated capital spending relative to cash flow, that unit interest costs will decline further in 1997.

INTEREST EXPENSE SUMMARY

(\$000's except where noted)	1996	1995	1994	1993	1992
Average Debt Outstanding	71,070	76,130	64,510	38,276	27,233
Average Interest Rates (%)	5.7	8.3	6.1	5.1	4.7
Interest Expense	4,039	6,322	3,939	1,941	1,269
Interest Expense - \$/BOE	0.94	1.47	0.95	0.66	0.69
Interest Coverage Ratio	13.38	6.73	12.31	15.96	11.84
Debt to Equity Ratio	0.37	0.28	0.74	0.35	0.63
Debt to Cash Flow Ratio	1.39	1.44	1.93	1.24	2.37

Capital Taxes Summit experienced higher capital taxes in 1996 as a result of growth in our capital base and increased revenue from our Saskatchewan properties. In 1997, because of oil production increasing in other regions, our Saskatchewan properties will comprise a smaller proportion of our overall revenue base and capital taxes should remain relatively unchanged.

CAPITAL TAX SUMMARY

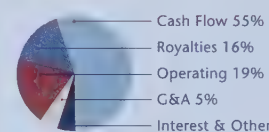
(\$000's except where noted)	1996	1995	1994	1993	1992
Federal Large Corporations Tax	506	448	421	239	67
B.C. Corporations Tax	15	15	12	13	–
Saskatchewan Capital Tax	329	308	321	146	87
Total	850	771	754	398	154
Capital Taxes - \$/BOE	0.20	0.18	0.18	0.14	0.08

Cash Flow Each of the above sections represents a component of Summit's cash flow from operations. Summit's 1996 cash flow of \$50 million represents a 38 per cent increase over 1995 cash flow of \$36.2 million. Cash flow per share was limited to a 26 per cent increase in 1996 due to a 10 per cent increase in the weighted average number of common shares outstanding. The increase in cash flow was primarily a result of an increase in average crude oil and natural gas prices throughout 1996, a 36 per cent decrease in interest costs and a minor decrease in operating costs. Partially offsetting these factors were increases to general and administrative expenses and capital taxes.

CASH FLOW SUMMARY

(\$000's except where noted)	1996	1995	1994	1993	1992
Cash Flow	50,006	36,242	44,565	29,044	13,755
Cash Flow - \$/Share	1.46	1.16	1.59	1.18	0.64
Cash Flow - \$/BOE	11.66	8.45	10.79	9.92	7.44

96 REVENUE DISTRIBUTION \$91.1 MM



We anticipate cash flow for 1997 of \$60 million (\$1.75 per share). This increase is based on increased production levels and pricing targets of U.S. \$22.00 WTI per barrel of oil and \$1.80 per thousand cubic feet of gas. We have assumed a U.S./Cdn. exchange rate of \$0.75. Operating expenses are expected to decline to the \$3.90 per BOE range and Summit's average interest rate is projected to be 4.5 per cent. The impact of variations in these parameters is provided in the sensitivity table shown below.

SENSITIVITY ANALYSIS

Variable	1997 Case	Variation	CASH FLOW \$000's	IMPACT \$/Share
Oil Production - bbls/d	6,600	100	600	0.02
Gas Production - Mcf/d	62,000	1,000	450	0.01
Oil Prices - \$U.S./bbl	22.00	1.00	2,300	0.07
Gas Prices - \$Cdn./Mcf	1.80	0.10	2,000	0.06
Exchange Rate	0.75	0.01	670	0.02
Operating Expenses - \$/Mcf	0.37	0.01	230	0.01
Operating Expenses - \$/bbl	4.10	0.10	250	0.01
Interest Rate (%)	4.5	1.0	670	0.02

Non-Cash Items

Deferred Taxes The sharp increase in earnings before taxes in 1996 compared to 1995 resulted in a commensurate increase in deferred taxes. Despite this increase in the gross amount of deferred taxes, Summit's effective tax rate remained relatively constant at 45 per cent. Given Summit's substantial tax pool base and our on-going capital expenditure programs, we do not expect to pay cash income taxes for several years.

DEFERRED TAX SUMMARY

(\$'000's except where noted)	1996	1995	1994	1993	1992
Deferred Tax Expense	6,107	2,310	7,545	4,711	571
Deferred Taxes - \$/BOE	1.42	0.54	1.83	1.61	0.31
Effective Tax Rate (%)	45	46	41	37	12

Depletion and Depreciation Summit's depletion and depreciation expense increased from \$29.8 million in 1995 to \$35 million in 1996. Converting gas to barrels of oil equivalent based on the relative energy content of six thousand cubic feet of gas to one barrel of oil, the 1996 depletion and depreciation rate was \$6.08 per BOE, an increase of 17 per cent. This increase is due to finding and on-stream costs exceeding historic averages and came about because many of Summit's 1996 exploratory projects will not be drilled until 1997; therefore, reserve additions were not commensurate with capital expenditures in 1996. Over the long term, Summit expects to benefit from these exploration investments and we expect depletion and depreciation rates per BOE to decrease with finding and on-stream targets below our current historic depletion and depreciation rate.

DEPLETION AND DEPRECIATION SUMMARY

(\$'000's except where noted)	1996	1995	1994	1993	1992
Depletion Expense	24,103	19,880	16,938	10,669	5,151
Depreciation Expense	10,868	9,905	8,169	4,830	3,120
Total	34,971	29,785	25,107	15,499	8,271
Depletion - \$/BOE (6:1)	4.19	3.47	3.12	2.84	2.13
Depreciation - \$/BOE (6:1)	1.89	1.73	1.50	1.29	1.29
Total	6.08	5.20	4.62	4.13	3.42

Net Earnings Net earnings is a function of cash flow adjusted for the non-cash charges described above. Summit's net earnings increased 171 per cent in 1996 and 144 per cent on a per share basis. These significant increases resulted from higher commodity prices in 1996 causing a dramatic improvement in netbacks. With the anticipated increase in cash flow for 1997, net earnings are expected to be in the order of \$11 million (\$0.32 per share). This will ultimately increase our shareholders' return on their investment.

NET EARNINGS SUMMARY

(\$000's except where noted)	1996	1995	1994	1993	1992
Net Earnings	7,451	2,745	10,807	7,960	4,209
Net Earnings - \$/Share	0.22	0.09	0.39	0.32	0.20
Net Earnings - \$/BOE	1.74	0.64	2.62	2.72	2.28
ROE After Tax - (%)	4.0	1.9	10.5	11.6	8.8

Capital Expenditures Summit's 1996 capital expenditure program totalled \$68.1 million, a 13 per cent increase over 1995. Thirty-six per cent of the 1996 program was dedicated to acquisitions of producing properties, the majority of which were acquired in Summit's W5 Alberta core area during the first quarter. Summit also increased its working interest in producing properties in the United States. Of the total U.S. spending, 60 per cent was dedicated to land acquisition and seismic evaluations, with only 11 per cent spent on drilling.

Summit's 1996 drilling program accounted for 30 per cent of the Company's overall capital program, with 90 per cent of drilling costs incurred in Canada. The combination of property acquisitions and expanded U.S. land activities resulted in a reduced drilling program of 36 wells, including 29 participation wells (16.8 net) and seven farmout wells. Fifty-nine per cent of the net wells were development targets; the remaining 41 per cent exploratory. Delays related to weather, natural gas pricing and partner negotiations also reduced the 1996 well count.

CAPITAL EXPENDITURE SUMMARY

(\$000's)	1996	1995	1994	1993	1992
Lease Acquisitions	10,807	7,163	20,960	4,727	818
Seismic	6,733	9,322	6,894	3,757	1,456
Drilling, Completions and Workovers	20,415	19,350	34,299	17,926	5,394
Capitalized G&A	—	—	1,355	1,508	1,500
Production Facilities	3,663	17,364	24,265	11,150	2,162
Property Acquisitions (net)	24,496	6,322	11,781	39,575	10,263
Administrative Assets	1,864	494	819	135	37
Site Restoration Expenditures	126	215	69	31	10
Total	68,104	60,230	100,442	78,809	21,640

CAPITAL EXPENDITURES GEOGRAPHIC ALLOCATION ■ Canada ■ United States



Seventy-three per cent of the 1996 capital program was financed through the re-investment of cash flow of \$50 million. The remaining 27 per cent (\$18.1 million) was financed by drawings on existing credit facilities with the Company's bank.

Summit has established a capital budget for 1997 of \$50 million and plans to drill at least 60 wells (45 net). Exploratory wells are expected to account for 60 per cent of the drilling; the remaining 40 per cent development. Sixty per cent of the wells will target oil bearing zones and 40 per cent will target natural gas. Approximately 60 per cent of the capital will be expended on Canadian projects with the balance targeting U.S. projects including additional 3-D seismic evaluation and a drilling program of at least 30 wells on defined prospects.

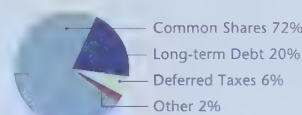
Liquidity and Capital Resources

Capitalization The market value of Summit's common shares comprised 72 per cent of the Company's total capitalization at December 31, 1996. Long-term debt (net of working capital) comprised 20 per cent, and site restoration and deferred income taxes comprised the remaining eight per cent.

TOTAL MARKET CAPITALIZATION

(\$000's)	1996	1995	1994	1993	1992
Working Capital Deficiency (Surplus)	(3,771)	(3,203)	4,438	(277)	(4,094)
Long-term Debt	69,664	52,274	85,882	35,939	32,591
Deferred Income Taxes	19,040	12,941	11,871	4,372	571
Provision for Future Site Restoration & Other Liabilities	8,201	3,961	2,774	1,737	894
Market Value of Common Shares at December 31	238,870	265,593	244,093	241,533	100,551
Total	332,004	331,566	349,058	283,304	130,513

96 MARKET CAPITALIZATION \$332 MM



Long-term Debt Funding for Summit's exploration and development programs is generally provided by cash flow and, where necessary, supplemented by equity financing. The Company's available lines of credit are accessed for construction of facilities and for acquisitions. Summit's policy is to limit debt levels to less than two years forward cash flow.

In April, 1996 Summit privately placed U.S. \$30 million (Cdn. \$41 million) of Senior Notes with institutional investors. The proceeds were applied against existing bank borrowings. The Senior Notes carry an eight and one half year average term, mature on April 25, 2006, and bear interest at a fixed rate of 6.78 per cent. The Senior Notes are repayable in five equal installments of U.S. \$6 million commencing April 25, 2002 with interest payable semi-annually, in arrears, until maturity. Interest rate swap arrangements have converted the fixed interest rate on the Senior Notes to a floating rate that fluctuates with the Canadian Bankers Acceptance Fee. Further foreign exchange swap arrangements have fixed the repayment of the principal amount of the Senior Notes at their carrying value in Canadian dollars. The Senior Notes rank equally with the Company's bank debt.

Summit has a loan facility with a Canadian chartered bank of \$125 million less the value of the Senior Notes. Available borrowings are limited by a borrowing base, established annually and tied to the value of the Company's petroleum and natural gas assets as determined by the lender. The combined borrowing base is currently set at \$100 million with unused capacity of \$30.3 million at December 31, 1996. The increase in long-term debt in 1996 to \$69.7 million results from capital expenditures exceeding cash flow by \$18.1 million. Based on the Company's plans for 1997, we expect debt levels to decrease during the year, adding to our capacity to take advantage of new opportunities as they arise.

Share Capital Summit's common shares traded in a range of \$5.00 to \$8.88 during 1996, a significant change from the range of 1995 trading. Our 1995 exploration efforts in the United States generated a great deal of anticipation in the market place. In spite of these exploration activities resulting in economic production, the results did not match the market's expectations. Summit maintains regular contact with industry analysts, apprising them of the Company's activities and emphasizing the risk inherent in exploratory ventures.

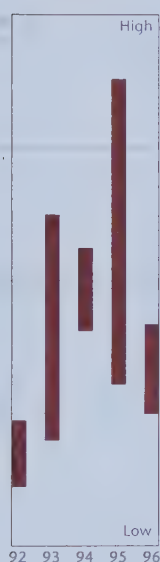
In February 1997 the Company obtained the necessary regulatory approvals to initiate a Normal Course Issuer Bid for its common shares. Up to five percent or 1,700,000 common shares may be purchased by the Company under the Issuer Bid which will expire on February 26, 1998 unless earlier terminated by the Company.

Deferred Revenue In 1995, a purchaser under a natural gas contract commenced action against the Company, declaring that a gas purchase agreement between the Company and the purchaser was valid and existing. The Company has defended and counter-claimed on the basis that regulatory events have given it a right to terminate the agreement. On this basis, the Company has discontinued deliveries of natural gas under the agreement effective January 1, 1995. The courts have granted judgment in favour of the Company respecting its right to terminate the agreement. Subject to appeal, the Company has been paid a provisional settlement payment of U.S. \$2.6 million, which has been recorded as deferred revenue pending appeal. Legal costs incurred to date respecting this issue have been applied against the provisional settlement proceeds. Summit expects that this issue will be resolved within the next twelve to eighteen months.

Net Asset Value Increases in BOE reserves, the quality blend of the Company's reserves as well as oil and natural gas prices have combined to contribute to a 16 per cent increase in the present value of Summit's proved plus probable reserves discounted at 15 per cent.

The value of the Company's undeveloped land holdings has increased with the acquisition of undeveloped acreage during the year. Consistent with prior years, this acreage has been valued at \$75.00 per acre. Increases in reserve values were partially offset by an increase in long-term debt and a decrease in other assets.

SHARE PRICE



Summit has accumulated a substantial database of 2-D and 3-D seismic data, a key component of the Company's exploration and development programs. In addition to its use in Summit's on-going exploration and development efforts, the Company's seismic data is also offered for sale from time to time, providing Summit with another means of recovering its investment. Summit includes value for proprietary seismic data, depreciated on a straight-line basis over time, in its asset value calculation as investment in these assets will continue to provide tangible benefits to the Company.

Summit includes a portion of the value of its tax pools in the calculation of its asset value. These tax pool balances have increased with Summit's continuing exploration and development efforts.

NET ASSET VALUE (\$MM)

1992	\$107
1993	\$212
1994	\$230
1995	\$261
1996	\$300

NET ASSET VALUE ANALYSIS

(\$000's except where noted)	1996	1995
Present Value of Reserves (discounted 15% before tax)	264,503	228,222
Undeveloped Land	37,179	32,314
Seismic and Other Assets	20,863	20,911
Working Capital Surplus	3,771	3,203
Long-term Debt	(69,664)	(52,274)
Net Asset Value Excluding Tax Pools	256,652	232,376
Tax Pools (estimated values)	43,348	28,694
Total Net Asset Value	300,000	261,070
Common Shares Outstanding (000's)	34,370	34,270
Net Asset Value - \$/Share	8.73	7.62

Business and Environmental Risks Summit's ability to meet its objective of maximizing shareholder value and ultimate financial viability is influenced by a number of factors, the most basic of which is the Company's ability to find oil and gas reserves and produce them efficiently. Summit's commitment to full-cycle exploration maximizes our chance of success by broadening our scope to include all aspects of land and prospect evaluation, exploration and development, marketing, risk management and core asset focus.

A number of risk factors must be considered in this process including:

→ The oil and gas industry is capital intensive and recurring operating expenses are a significant cash outflow while capital resources are constrained. Efficient finding and on-stream and production costs are critical success factors. Summit applies rigorous economic criteria and cost controls to each of its projects and the Company's debt burden is limited to ensure financial flexibility.

→ Key performance factors, including production volumes, cash flow, finding costs and commodity netbacks, are very sensitive to changing industry, operating, and market conditions, and are, therefore, susceptible to rapid changes. Summit has in place comprehensive reporting, analysis and evaluation systems to manage and, wherever possible, anticipate and react to such changes.

→ The prices which the Company receives for its commodities have been highly volatile. Prices are influenced by many factors which are beyond Summit's control including global supply and demand conditions, world-wide political events, weather, and exchange rate fluctuations. Summit's Board of Directors has established guidelines for the Company's risk management strategies which allow the Company to enter into financial transactions to mitigate price risk and establish more certainty for its cash flow streams. The Company also maintains a balanced portfolio of sales contracts for its products to reduce its exposure to short term market fluctuations.

→ The oil and gas industry in North America is highly competitive. Summit must compete with other industry participants for qualified personnel, financing, new acreage, drilling equipment, oil and gas service companies, well equipment, commodity sales contracts and transportation capacity. Our company focuses its activities within select core areas where its experience and expertise should provide a competitive advantage. We utilize the very latest technology and employ the most skilled, highly trained, motivated individuals in each of the Company's disciplines.

→ The regulatory environment in which the Company operates is becoming increasingly complex and the costs and potential effects of non-compliance are ever-increasing. Furthermore, industry in general and specifically the oil and gas industry are faced with increasing concerns regarding the environmental impact of corporate operations.

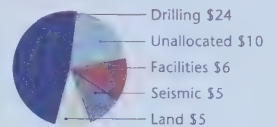
Summit's Board of Directors has approved, and Management has implemented, a comprehensive set of environmental and safety policies. A safety awareness and training program has been established for all employees and contractors, and the Company has developed a safety procedures manual and emergency response plan to deal with situations which may jeopardize the environment or public safety. Regular third-party reviews of all Summit's operated properties are conducted with respect to environmental and safety concerns. Corporate insurance arrangements are in place to protect the Company against losses due to disruption or accidents.

Summit is committed to acting responsibly with respect to our environment wherever we operate and our control procedures and policies are in compliance with the Environmental Code of Practice published by the Canadian Association of Petroleum Producers. The Company's estimated liability for future abandonment and site restoration is reviewed annually and a provision is made on a unit of production basis. The total estimated liability for Summit is presently \$12 million with \$5.3 million recorded on the balance sheet to December 31, 1996.

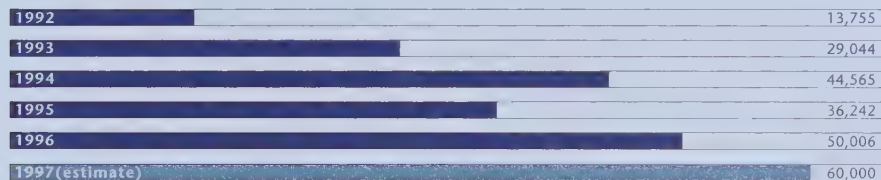
Outlook We have set our targets for 1997 based on a capital spending program of \$50 million of exploration and development expenditures, a 20 per cent increase over the exploration and development component of capital spending in 1996. Drilling plans for 1997 include at least 60 wells: 60 per cent of these will be exploratory and 40 per cent development. Our Canadian operations will absorb 60 per cent of the budget in 1997.

The assumptions we have used in our budget include WTI oil prices averaging U.S. \$22.00 per barrel, natural gas prices averaging \$1.80 per thousand cubic feet, and a U.S./Cdn. exchange rate of \$0.75. Our 1997 production volumes are expected to average 6,600 barrels per day of oil and 62 million cubic feet per day of natural gas, equating to a nine per cent increase over 1996 BOE production volumes. The resulting cash flow will fund our planned growth activities in 1997 and provide the flexibility to expand any aspect of our capital program or take advantage of emerging investment opportunities throughout the year. Our strong financial position will enable us to capitalize on exploration or development success in any of our focus areas, ensuring Summit's growth in 1997 and beyond.

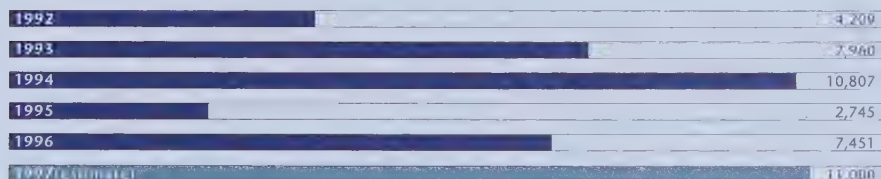
97 CAPITAL BUDGET
\$50 MM



CASH FLOW (\$000's)



NET EARNINGS (\$000's)



MANAGEMENT'S REPORT

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies described in the notes to the consolidated financial statements. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management has developed and maintains systems of internal accounting controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguarding of assets.

External auditors, appointed by the shareholders of the Company, have examined the consolidated financial statements and have expressed an opinion on the statements. Their report is included with the consolidated financial statements.

The Board of Directors of the Company has established an Audit Committee, consisting of non-management directors, to review these statements with management and the auditors. The Audit Committee has approved these statements on behalf of the Company's Board of Directors.



David A. Dyck, Vice President, Finance
& Chief Financial Officer



Larry B. Krause, President & Chief Executive Officer
Calgary, Canada
February 14, 1997

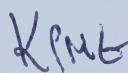
AUDITORS' REPORT

To the Shareholders of Summit Resources Limited

We have audited the consolidated balance sheets of Summit Resources Limited as at December 31, 1996 and 1995 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants
Calgary, Canada
February 14, 1997

CONSOLIDATED BALANCE SHEETS

As at December 31	1996	1995
(\$ thousands)		
Assets		
Current Assets		
Cash	\$ 1,831	\$ 1,156
Accounts Receivable	15,611	12,490
Inventories	775	2,481
	18,217	16,127
Petroleum and Natural Gas Properties (Note 2)	283,516	250,509
	<u>\$ 301,733</u>	<u>\$ 266,636</u>
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 14,446	\$ 12,924
Long-term Debt (Note 3)	69,664	52,274
Other Liabilities (Note 4)	8,201	3,961
Deferred Income Taxes (Note 5)	19,040	12,941
	111,351	82,100
Shareholders' Equity		
Share Capital (Note 6)	165,890	165,347
Retained Earnings	24,492	19,189
	190,382	184,536
	<u>\$ 301,733</u>	<u>\$ 266,636</u>

Approved by the Board of Directors



Director



Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Year ended December 31	1996	1995
(\$ thousands except per share amounts)		
Revenue		
Petroleum and Natural Gas	\$ 91,140	\$ 76,707
Royalties	(14,757)	(12,539)
	76,383	64,168
Expenses		
Production	17,344	17,762
General and Administrative	4,144	3,071
Interest on Long-term Debt	4,039	6,322
Capital Taxes	850	771
Depletion and Depreciation	34,971	29,785
Provision for Future Site Restoration Costs	1,477	1,402
	62,825	59,113
Earnings before Income Taxes	13,558	5,055
Deferred Income Taxes (Note 5)	6,107	2,310
Net Earnings	7,451	2,745
Retained Earnings at Beginning of Year	19,189	18,189
Excess of Cost over Stated Value of Common Shares Acquired	(96)	(13)
Dividends on Common Shares	(2,052)	(1,732)
Retained Earnings at End of Year	\$ 24,492	\$ 19,189
Per Share		
Net Earnings (Note 1(e))	\$ 0.22	\$ 0.09

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Year ended December 31	1996	1995
(\$ thousands except per share amounts)		
Cash Provided By (Used For)		
Operating Activities		
Net Earnings	\$ 7,451	\$ 2,745
Items not Involving Cash		
Depletion and Depreciation	34,971	29,785
Provision for Future Site Restoration Costs	1,477	1,402
Deferred Income Taxes	6,107	2,310
Cash Flow from Operations	50,006	36,242
Increase in Deferred Revenue (Note 4)	2,889	—
Decrease (Increase) in Non-Cash Working Capital	(1,953)	2,102
	50,942	38,344
Financing Activities		
Issue of Share Capital	783	67,001
Dividends on Common Shares	(2,052)	(1,732)
Increase (Decrease) in Long-term Debt	17,390	(33,608)
	16,121	31,661
Cash Generated	67,063	70,005
Investing Activities		
Exploration and Development of Petroleum and Natural Gas Properties	(43,608)	(53,908)
Acquisition of Petroleum and Natural Gas Properties	(27,572)	(7,869)
Disposition of Petroleum and Natural Gas Properties	3,076	1,547
Shares Acquired under Normal Course Issuer Bid	(344)	(32)
Decrease (Increase) in Non-Cash Working Capital	2,060	(9,243)
Cash Invested	(66,388)	(69,505)
Increase in Cash	675	500
Cash at Beginning of Year	1,156	656
Cash at End of Year	\$ 1,831	\$ 1,156
Per Share		
Cash Flow from Operations (Note 1(e))	\$ 1.46	\$ 1.16

notes to the consolidated financial statements

(tabular dollar amounts in \$ thousands)

1. Accounting Policies

(a) **Principles of Consolidation** The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Summit Resources, Inc.

(b) **Inventories** Inventories are recorded at cost and represent production equipment expected to be employed on the Company's petroleum and natural gas properties.

(c) **Petroleum and Natural Gas Operations** The Company follows the full cost method of accounting whereby all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country basis, currently Canada and the United States. Such costs include land acquisition costs, geological and geophysical costs, lease rental costs on non-producing properties, costs of both productive and unproductive drilling and production equipment, net of government grants. Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a significant change in the rate of depletion.

The accumulated costs in a cost centre from which there is production, less the costs of acquisition of unproved properties, are depleted and depreciated using the composite unit of production method based on total proved reserves before royalties. Natural gas reserves and production are converted into equivalent barrels of oil based upon the estimated relative energy content.

The costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion.

The net carrying cost of the Company's petroleum and natural gas properties in a cost centre is limited to an estimated recoverable amount being the aggregate of future net revenues from proved reserves, less future site restoration and capital costs and the costs of undeveloped properties, net of impairment allowances. The total net carrying costs of all cost centres is further limited by the above estimated recoverable amount less future general and administrative costs, financing costs and income taxes. Future net revenues have been calculated using prices and costs in effect at the Company's year end without escalation or discounting.

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(d) **Future Site Restoration Costs** Estimated future site restoration costs are provided for using the unit of production method based on total proved reserves before royalties. Costs are estimated by the Company's engineers based on current regulations, costs, technology and industry standards. The annual charge is included in the calculation of net earnings and removal and site restoration expenditures are charged to the accumulated provision as incurred.

(e) **Per Share Information** Earnings and cash flow from operations per share are calculated using 34,244,000 shares (1995 - 31,216,000) being the weighted average number of shares outstanding during the year. Shares reserved for issuance (Note 6(c)) are not materially dilutive to earnings or cash flow per share.

(f) **Foreign Currency Translation** Current assets, current liabilities and long-term monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the rates in effect at the balance sheet date. Other assets and liabilities are translated at the rates prevailing at the respective transaction dates and revenues and expenses are translated at average rates prevailing during the year.

(g) **Financial Instruments** The Company periodically enters into derivative financial instruments contracts to manage exposures related to interest rates, foreign currency exchange rates and oil and natural gas prices. Amounts received or paid under interest rate swaps are recognized in interest expense, while settlement amounts on commodity and foreign currency hedge contracts are recognized in earnings as the related production revenues are recorded.

2. Petroleum and Natural Gas Properties

	1996	1995
Petroleum and Natural Gas Rights Including Exploration and Development Thereon	\$ 355,637	\$ 298,476
Production Equipment and Facilities	101,803	92,859
Other	5,707	3,834
	463,147	395,169
Accumulated Depletion and Depreciation	(179,631)	(144,660)
	\$ 283,516	\$ 250,509

As at December 31, 1996, petroleum and natural gas property costs include \$46.7 million (1995 - \$44.6 million) related to unproved properties. These costs are excluded from depletion calculations until such time as the properties are evaluated.

As at December 31, 1996, the Company has petroleum and natural gas properties in the United States with a net book value of \$47 million (1995 - \$32.1 million). Included in these amounts are \$25.5 million (1995 - \$20.8 million) of unproved properties which are excluded from depletion. Revenues and operating profit from the United States were \$5.6 million and \$760,000 respectively in 1996 (\$3.7 million and \$765,000 respectively in 1995).

3. Long-term Debt

	1996	1995
Senior Notes	\$ 40,950	\$ –
Bank Loan	28,714	52,274
	\$ 69,664	\$ 52,274

Senior Notes

On April 25, 1996, the Company issued U.S. \$30 million of 6.78 per cent Senior Notes with an eight and one half year average term, maturing on April 25, 2006. The Senior Notes are repayable in five equal installments of U.S. \$6 million commencing April 25, 2002 with interest payable semi-annually, in arrears, until maturity. Security on the Senior Notes ranks equally with the Company's bank loan and includes a floating charge debenture and a general assignment of accounts receivable.

Interest rate swap arrangements have converted the fixed interest rate on the Senior Notes to a floating rate that fluctuates with the Canadian Bankers Acceptance Fee. Foreign exchange swap arrangements have fixed the repayment of the principal amount of the Senior Notes at \$41 million.

Bank Loan

The Company has a loan facility with a Canadian chartered bank of \$125 million less the value of the Senior Notes. Borrowings under the facility bear interest at the bank's prime rate or at money market rates plus a 3/4 per cent stamping fee. Amounts drawn on the facility are secured by a floating charge debenture and a general assignment of accounts receivable. Available borrowings are limited by a borrowing base, established annually based on the value of petroleum and natural gas assets as determined by the lender. The borrowing base is currently set at \$100 million, of which \$69.7 million (1995 - \$52.3 million) was drawn against the facility as at December 31, 1996. Although advances under the facility are due on demand, no principal repayments are scheduled for the next five years, providing conditions are satisfied continuously as outlined in the loan agreement between the Company and the bank.

4. Other Liabilities

	1996	1995
Provision for Future Site Restoration	\$ 5,312	\$ 3,961
Deferred Revenue	2,889	–
	\$ 8,201	\$ 3,961

5. Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the Company makes full provision for income taxes deferred as a result of claiming capital cost allowance and exploration and development costs in excess of the amounts provided for depletion and depreciation in the accounts.

The income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rate to earnings before income taxes. The major components of these differences are as follows:

	1996	1995
Earnings Before Income Taxes	\$ 13,558	\$ 5,055
Canadian Corporate Tax Rate	44.6%	44.6%
Calculated Income Tax Provision	\$ 6,047	\$ 2,255
Add (Deduct)		
Non-deductible Crown Charges	5,633	4,536
Federal Resource Allowance	(5,726)	(4,817)
Non-taxable Alberta Royalty Tax Credits	(598)	(658)
Non-deductible Portion of Depletion	767	798
Other	(16)	196
Deferred Income Taxes	\$ 6,107	\$ 2,310

The Company has acquired certain petroleum and natural gas interests under the tax-free transfer provisions of The Income Tax Act and has transferred other income tax deductions to investors under flow through share financing arrangements and, accordingly, as at December 31, 1996, \$12.5 million (1995 - \$13.3 million) of recorded costs are not deductible for income tax purposes.

As at December 31, 1996, the Company had costs available (subject to confirmation by income tax authorities) for deduction against future Canadian and United States taxable income in the following amounts:

CANADA	
Capital Cost Allowance	\$ 63,100
Canadian Oil and Gas Property Expense	82,600
Canadian Development Expense	21,900
Canadian Exploration Expense	2,400
	\$ 170,000
UNITED STATES (\$ Cdn.)	
Undepleted Leasehold Costs	\$ 36,000
Undepreciated Capital Costs	2,400
Net Operating Loss Carryforwards	7,600
	\$ 46,000

6. Share Capital

a) Authorized

Authorized share capital consists of an unlimited number of common shares without par value, 5 million participation shares issuable in series and an unlimited number of Class 1 preferred shares of which none have been issued.

The participation shares of each series shall, with respect to the payment of dividends and in the distribution of assets in the event of liquidation, dissolution, or winding up of the Company, rank after the Class 1 preferred shares and rank equally with the common shares. Each series is convertible into the number of common shares determined by dividing the increase in the fair market value of the common shares above a base price by the fair market value of the common shares at the time of conversion. The shares are redeemable by the Company at the original price and convertible over a specified period of time.

b) Issued and Outstanding

The following is a summary of changes in share capital during the two years ended December 31, 1996:

	Number of Shares	Amount
COMMON SHARES		
Balance, December 31, 1994	28,300,614	\$ 97,103
Exercise of Employee Stock Options, for Cash	756,749	5,169
Conversion of Employee Participation Shares	70,570	15
Issued for Cash (1)	5,146,144	64,628
Purchased and Cancelled	(4,000)	(19)
Share Issue Costs, Net of Deferred Income		
Tax Reduction of \$1,240,000	—	(1,556)
Balance, December 31, 1995	34,270,077	165,340
Exercise of Employee Stock Options, for Cash	18,909	79
Conversion of Employee Participation Shares	11,582	4
Issued for Cash (2)	120,550	723
Purchased and Cancelled	(51,400)	(248)
Share Issue Costs, Net of Deferred Income		
Tax Reduction of \$8,000	—	(10)
Balance, December 31, 1996	34,369,718	\$ 165,888

(1) Includes 112,811 shares issued to certain employees, directors and related parties of the Company. In accordance with certain provisions of the Income Tax Act, Canadian exploration expenses related to the expenditures of the subscribed funds were transferred to the shareholders.

(2) Includes 120,550 shares issued to certain employees, directors and related parties of the Company. In accordance with certain provisions of the Income Tax Act, Canadian exploration expenses related to the expenditures of the subscribed funds were transferred to the shareholders.

PARTICIPATION SHARES	Number of Shares	Amount
Balance, December 31, 1994	63,120	\$ 22
Converted to Common Shares	(43,979)	(15)
Balance, December 31, 1995	19,141	7
Cancelled	(2,863)	(1)
Converted to Common Shares	(9,828)	(4)
Balance, December 31, 1996	6,450	\$ 2

c) Shares Reserved For Issuance

Participation Shares The Company has created seven series of participation shares which are held by employees of the Company and are convertible into common shares based on the increase in the fair market value of the common shares above base prices ranging from \$2.42 per share to \$3.48 per share. These shares are convertible over specified periods to December 31, 1997.

At December 31, 1996, based on the year end closing price of the common shares on the Toronto Stock Exchange of \$6.95, the 6,450 participation shares are convertible into a total of 7,609 common shares under the conversion terms of the participation shares.

Employee Stock Option Plans The Company has reserved 2,800,000 common shares pursuant to the Employee Incentive Stock Option Plan (the "Plan"). Options granted under the Plan will be for a five year period, and available to employees, officers and directors of the Company. At December 31, 1996, a total of 1,936,795 options, exercisable on/or before November 28, 2002 at prices ranging from \$4.13 to \$16.13 were outstanding under the Plan.

During 1996, the shareholders of the Company approved the creation of a new stock option plan, the Employee Share Incentive Plan - 1996 (the "1996 Plan"). The 1996 Plan is intended to be utilized when the available shares in the Employee Incentive Stock Option Plan have been exhausted. No options were outstanding under the 1996 Plan at December 31, 1996.

d) Normal Course Issuer Bid

In October 1995, the Company received approval from the Toronto Stock Exchange to purchase up to 1.7 million of its common shares outstanding through a Normal Course Issuer Bid. The bid commenced October 31, 1995 and terminated on October 30, 1996. During 1996, the Company purchased for cancellation 51,400 shares under the bid at an average price of \$6.68 per share (1995 - 4,000 shares; \$7.88 per share). The difference between the price paid for the shares and the related share capital amount has been charged to retained earnings.

Year Ended December 31	1996	1995	1994
FINANCIAL			
(\$ thousands except per share amounts)			
Petroleum and Natural Gas Revenue	91,140	76,707	81,558
Cash Flow From Operations	50,006	36,242	44,565
Per Share	1.46	1.16	1.59
Net Earnings (Loss)	7,451	2,745	10,807
Per Share	0.22	0.09	0.39
Capital Expenditures			
Exploration and Development	43,608	53,908	88,661
Acquisitions (net of dispositions)	24,496	6,322	11,781
Long-term Debt (net of working capital)	65,893	49,071	90,320
Shareholders' Equity	190,382	184,536	115,314
OPERATIONS			
Production			
Oil: Total (Mbbls)	2,089	2,127	2,175
Per Day (bbls)	5,707	5,826	5,960
Gas: Total (Bcf)	22.0	21.6	19.6
Per Day (MMcf)	60.1	59.2	53.6
Price			
Oil - \$/bbl	25.49	20.97	18.40
Gas - \$/Mcf	1.70	1.44	2.07
Reserves			
Oil and NGLs (Mbbls)			
Proved	12,125	10,225	11,233
Provable	5,009	4,656	3,756
Total	17,134	14,881	14,989
Gas (Bcf)			
Proved	156.7	158.6	176.7
Probable	46.3	60.7	61.3
Total	203.0	219.3	238.0
Wells Drilled (gross)			
Oil	10	19	25
Gas	12	20	39
Service	—	1	1
Dry	14	28	24
Total	36	68	89
Undeveloped Land Holdings (thousands of net acres)	496	431	462
COMMON SHARES			
Shares Traded (MM)	19.9	25.3	7.1
Value Traded (\$MM)	122.9	319.5	64.0
Share Price - \$/Share			
High	8.88	17.63	11.25
Low	5.00	6.13	8.13
Close	6.95	7.75	8.63
Number of Shares (MM)			
Year End Outstanding	34.4	34.3	28.3
Weighted Average Outstanding	34.2	31.2	28.0

1993	1992	1991	1990	1989	1988	1987
52,289	28,873	25,294	30,666	23,019	16,541	8,832
29,044	13,755	10,598	14,197	10,731	8,872	4,918
1.18	0.64	0.50	0.72	0.59	0.59	0.39
7,960	4,209	(18,704)	3,183	2,199	2,447	2,077
0.32	0.20	(0.87)	0.16	0.12	0.16	0.16
39,234	11,377	15,301	21,065	14,965	11,054	11,908
39,575	10,263	(3,135)	584	17,096	605	3,146
35,662	28,497	20,365	18,852	26,275	6,638	12,243
103,242	51,772	47,810	66,458	48,400	44,507	26,230
1,686	991	878	952	804	709	332
4,619	2,706	2,406	2,608	2,203	1,938	910
12.4	8.6	7.7	8.1	6.4	5.4	1.7
34.1	23.5	21.2	22.2	17.5	14.7	4.6
17.07	18.07	17.38	20.51	17.99	14.01	20.73
1.82	1.24	1.26	1.35	1.31	1.20	1.08
9,196	5,987	4,473	4,793	5,963	5,420	4,157
2,010	1,342	641	487	946	636	1,522
11,206	7,329	5,114	5,280	6,909	6,056	5,679
140.5	75.9	73.8	96.1	86.7	60.0	60.1
31.0	15.6	11.6	8.1	11.6	4.7	7.8
171.5	91.5	85.4	104.2	98.3	64.7	67.9
51	30	25	21	24	20	16
22	4	8	14	8	10	10
2	1	1	3	3	2	-
20	15	18	27	24	18	21
95	50	52	65	59	50	47
305	263	300	324	246	143	80
14.4	4.4	3.4	3.9	2.1	1.7	1.9
122.5	13.1	11.7	20.1	8.4	6.0	5.4
12.50	4.75	4.38	6.13	5.06	4.25	4.31
4.00	2.25	3.00	3.88	3.38	2.75	2.00
8.63	4.69	3.25	4.38	5.06	3.50	2.81
28.0	21.4	21.4	21.5	18.7	18.2	13.8
24.6	21.4	21.4	19.8	18.3	14.9	12.6

CORPORATE INFORMATION

The Annual General Meeting
of shareholders of Summit
Resources Limited will be held on
May 14, 1997 at 3:00 pm in the
Bonavista Room of the
Westin Hotel Calgary, Alberta.
Shareholders who are unable to
attend are requested to complete
and return their Form of Proxy
to Montreal Trust located at
530 Eighth Avenue S.W.,
Calgary, Alberta T2P 3S8.

HEAD OFFICE
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1775 Sherman Street, Suite 2950
Denver, Colorado 80203
Phone: (303) 837-8143
Fax: (303) 837-8145

AUDITORS
KPMG, Calgary, Alberta

BANKERS
Bank of Montreal, Calgary, Alberta
Harris Bank, Chicago, Illinois

LEGAL COUNSEL
Milner Fenerty, Calgary, Alberta
Field Atkinson Perraton, Calgary, Alberta
Felesky Flynn, Calgary, Alberta
Davis, Graham & Stubbs, Denver, Colorado

REGISTRAR AND TRANSFER AGENT
Montreal Trust Company
Calgary, Alberta, Toronto, Ontario

STOCK EXCHANGE LISTING
The Toronto Stock Exchange
Trading Symbol: SUI

ANNUAL INFORMATION FORM
The Company's Annual Information Form will be
available in May 1997. A copy may be obtained by
contacting Summit's head office.

directors

ERNEST S. RADY (1)
Chairman of the Board
American Assets, Inc., San Diego, California

LARRY B. KRAUSE (1)
President & Chief Executive Officer
Summit Resources Limited, Calgary, Alberta

R. BRUCE BAILEY
Professional Geologist, retired, Calgary, Alberta

BRIAN S. HIRSCH (2)
Chartered Accountant, Winnipeg, Manitoba

ROBERT G. JENNINGS (2)
President, Jennings Capital Inc.
Calgary, Alberta

ROY E. McLELLAN (2)
President, Calgary Valve & Fitting Ltd.
Calgary, Alberta

LEON W. PARMA
Chairman, La Jolla Capital Inc.
La Jolla, California

officers

ERNEST S. RADY
Chairman of the Board

LARRY B. KRAUSE
President & Chief Executive Officer

GARY W. BROWNE
Vice President, Land

R. GLENN DAWSON
Vice President, Exploration

DAVID A. DYCK
Vice President, Finance & Chief Financial Officer

DONALD J. NELSON
Vice President, Operations

MYRA JONES
Corporate Secretary

(1) MEMBER OF THE EXECUTIVE COMMITTEE (2) MEMBER OF THE AUDIT COMMITTEE

GLOSSARY OF ABBREVIATIONS AND TERMS

API	American Petroleum Institute
ARTC	Alberta Royalty Tax Credit
AEUB	Alberta Energy and Utilities Board
BOE	barrels of oil equivalent (1 BOE = 10 Mcf)
bbl	barrel
bbls	barrels
bbls/d	barrels per day
Bbbls	billion barrels
Bcf	billion cubic feet
m ³	cubic metres
Mbbls	thousand barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMbbls	million barrels
MMBOE	millions of barrels of oil equivalent
MMbtu	million British thermal units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
Mstb	thousand stock tank barrels
NEB	National Energy Board of Canada
NGLs	natural gas liquids
Tcf	trillion cubic feet
WTI	West Texas Intermediate

METRIC CONVERSION TABLE

to convert from:	to:	multiply by:
thousand cubic feet (Mcf)	thousand cubic metres (10 ³ m ³)	0.028174
barrels (bbls)	cubic metres (m ³)	0.159000
feet (ft.)	metres (m)	0.305000
miles (mi.)	kilometres (km)	1.609000
acres	hectares (ha)	0.405000



**SUMMIT
RESOURCES
LIMITED**

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